RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Dec. 22, 1993 **LETTER 1137**

Dec. 10 DJIA 3740.67; PTI 4026; A-D Ratio -3.02
Dec. 17 DJIA 3751.67; PTI 4026; A-D Ratio -3.03
Dow Yield: 2.72%; Dow Price/Earnings: 36.7
Dow 200-day MA: 3544; Dow 30-day MA: 3691
Dow Times Book Value: 3.27; PTI 89-day MA: 3967
Percentage of Undervalued Blue-chips: 8%
Dow Low Risk Buy Index: +96; Gold-PTI: 1111

NO INFLATION? Almost as one, the nation's economists are insisting that "there's no inflation in the foreseeable future." What the economists mean is -- don't expect manufacturers or retailers to raise prices next year. Maybe they're right -- maybe.

But then there's monetary debasement, which is what we early gold-accumulators are preparing for. Debasement of the currency is something that the economists can't seem to understand (or maybe they still believe the dollar will hold its purchasing power -- to which I say, "dream on").

ACCUMULATION: I've been watching markets ever since 1946. The most exciting upside action I've ever seen was in 1958. At that time the Wall Street adage was, "As steel goes, so goes the market." I've never seen buying in a group the way I saw in steels in the big bull market year of '58. It was 5,000 shares of US Steel (X), 10,000 of Bethlehem (BS), another 5,000 X, 25,000 BS, 15,000 of RS (Republic Steel), and on and on. Steels were painting the tape. It was an amazing parade.

On just a few selected days recently I got just a smidgen of that same feeling about golds. Somebody's been buying the gold shares in quantity. First they'll buy 1,000 HM, then they switch to 2,000 PGU, back to 300 HM, 500 shares of NGC, 2,000 PDG, 3,000 shares of NGC. Of course, currently gold doesn't have anything like the following that steels had in the '50s, but somebody out there is accumulating the golds. The buying is very careful, never wanting to push up the prices too high, moving from one gold stock to the next. I take it as base building for a coming big bull market. Remember the old adage, "There's no fever like gold fever." The fever hasn't started yet, but the temperature is slowly rising, very subtle, but it's rising.

THE STOCK MARKET: I'm seeing a good deal of technical deterioration in this market, particularly in the price to breadth relationship (i.e., the relationship between the Dow and the advance-decline ratio). Back in the 1950s I worked for a boss who told me, "Russell, I never worry about the good things that happen, it's the bad things I worry about. Remember this, the good things take care of themselves -- it's the bad things that can put you out of business."

I guess over the years I've adopted some of that same philosophy, particularly concerning the stock market. The attitude comes from seeing too many people who look like heroes during a bull market -- then a bear market hits, and these same heroes end up having lost money on the whole bull-bear cycle. It's enough to make a body cynical.

The good thing about this stock market, at least up to recently, is that the Dow Averages have continued to hold together -- in fact, they've done better than that. First the Industrials rally to highs, then the Transports run up to a high of their own, then the Dow pops up again. It's been going that way all year. Has the pattern halted? A bit too early to tell.

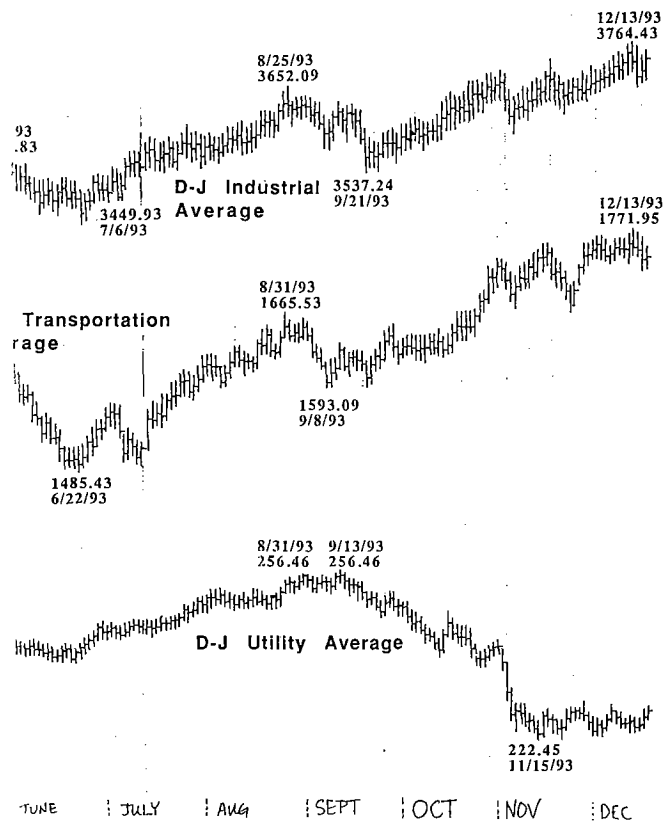
Record highs were hit by the Averages simultaneously on December 13, D-J Industrials at **3764.43,** the D-J Transports at **1771.95.** Following those highs the Averages sold off (these sell-offs after new highs are becoming an uncomfortable habit).

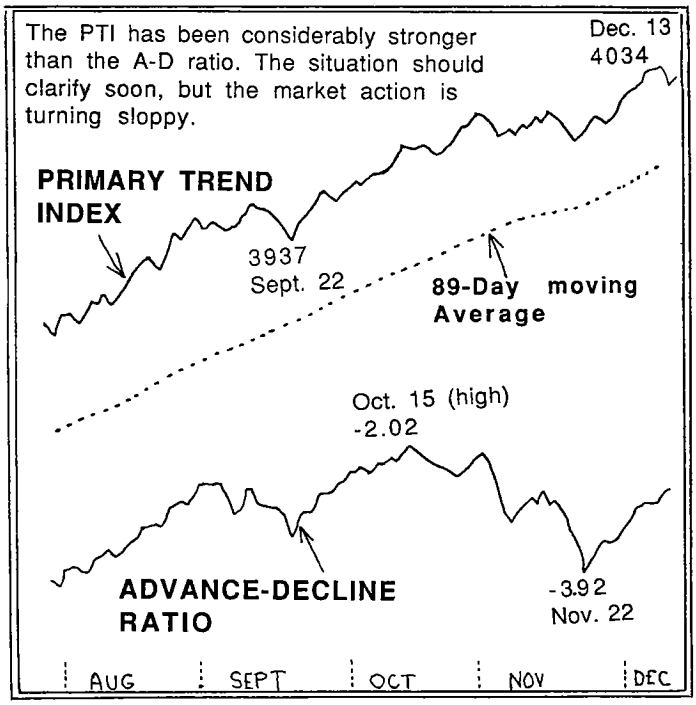
As for my Primary Trend Index (PTI), its rate of ascent has slowed a bit, but the PTI nevertheless continues to hover not far from its highs (see page 2 chart). So what does all this strange action add up to? It adds up to puzzlement and confusion. Translation -- somewhere ahead all the elements of this market will get in gear. Until then, we watch.

How about sentiment? No question about it, a lot of the "experts" are skittish to bearish. There are plenty of warnings out there -- watch for a 10% correction, watch for a 1987 repeat, wait, we could even be on the edge of a major bear market. Normally, this kind of sentiment would constitute a major plus for the bulls. Bull markets usually topple over amid frothy optimism, not widespread caution. So the sentiment is not normal, not if this is to be the bitter end.

That's the positive side of the picture. What about the negative part? Well, as I said, this market has been turning rather ragged. The Utility Average bailed out a few months ago, although more recently it has been making a limited come-back.

The Buying Stampede in breadth ended with the A-D ratio breaking down badly during October-November. Since then, the recovery in the A-D has been unimpressive. What I like even less is that on many upside days in the Averages, the breadth has actually been down. Not good.





In his latest report, Joe Granville states that over 400 Big Board issues are now within one point of making new 52-week lows. That certainly smacks of technical deterioration (Joe notes that this is the kind of action that preceded the 1987 and 1990 crashes). We also have weakness in the bonds (I believe they've topped out). And we have the spectacle of the public still pouring their hard-earned money into 4,300 assorted mutual funds (which is marvelous as far as the fund managements and the banks are concerned, but it makes me just a wee bit nervous).

As an aside, *Indata* service tells us that the funds' free cash reserves are down to the lowest level on record. Low cash reserves means less buying power for the funds. It also means that the funds are indulging in over-optimism.

A bit more about my Primary Trend Index. Maybe it's in confusing areas such as this that the PTI proves its real value. But remember, the PTI is not going to pick the top day for this bull market and maybe not even the top week. Frankly, I don't know any barometer or thermometer or system that can do that (and believe me, I've searched for the magic system for many decades).

However, the PTI will tell us when the internal structure of this market starts to unravel. And just as it has been saying for years that the underlying trend of the market is up, the PTI will (somewhere ahead) tell us when the overall trend of the stock market has turned down (that'll be the final "bail-out signal").

Meanwhile, my friends at *Market Logic* [(800)442-9000] warn that *"speculation is reaching a feverish pitch with 101 initial public offerings in November and eight secondaries last week following a record single-week total of 28 the previous week, raising the ten-week moving average to an extremely bearish 12.7. The latter reading has been exceeded only once before -- in the week ending June 28, 1986. Smart money is selling heavily and that's bearish."* Note: $1 trillion in new stock issues, secondaries and bonds have been issued so far in 1993. I mean, we're talking about real money.

Valuation -- the current yield on the Dow is a tiny 2.68%, which spells extreme overvaluation. Furthermore, this market has been overvalued for a longer period of time than any other in history. Overvalued markets tend to be markets under informed, sophisticated distribution. Just a thought.

Final Thought: I'm calling this the "no follow through market." At this point I feel that the market is unimpressive on the upside, but equally unimpressive on the downside. The true trend will be established when all elements of the market get in gear either on the upside or the downside. As this is written, that just hasn't happened.

INVESTMENT POSITION: There are day-traders, there are intermediate-term traders, and there are long-term investors. The latter tend to be value investors, they buy when stocks (or anything else, for that matter) represent great values, and they hold those items until the value-ignorant ("buy 'em when they're rising") public ultimately takes them off their hands.

The big, serious, value investors, for the most part, have to be out or at least moving out of the current stock market. The minuscule yields on the major averages alone will keep them exiting today's stock market.

The traders, well, they're always looking for action, so we have to surmise that they're continuing to run in and out of the market -- but we also have to remember that they'll be through the exit-door at the first sign of trouble.

Then there's the public. The public buys excitement, the public buys hopes, and the public buys rising trends (the public tends to buy at the highest third of any trend). The public likes this market; the public is in this market up to its neck, and they're pouring in fresh billions of dollars month after month.

As subscribers must surmise by now, I think the place to be is in the gold bull market. This is a fairly new bull market -- in contrast to the stock and bond bull markets (that's assuming that bonds are still in a bull market). Those bull markets are geezers; they've grown old, they've got white hair. I'm guessing that a goodly portion of my subscribers have taken some kind of position in gold. I recognize that this is not easy, since 90% of the verbiage you read about gold is on the "anti-gold" side of the ledger. I've been trying to convince subscribers that gold is in a genuine, honest-to-gosh bull market, but I know from experience that people tend to move on their emotions, not on the evidence.

At any rate, if you haven't yet entered the gold bull market, here are some things you might do. Do the most conservative thing -- buy gold coins. Buy krugerrands, which sell at a low premium over gold.

Next, buy the stocks, buy American Barrick, Homestake, Placer Dome, Hemlo, Horsham, Pegasus, Newmont Gold, Royal Oak, Agnico Eagle, Echo Bay and two on the Toronto -- Euro-Nevada and Franco-Nevada. Also buy Cambior on the Montreal exchange. I also bought the April 420 gold options and the June 400 options. But these are rank speculations, and when you buy an option you're playing against time. Options should only be purchased by those who know exactly what the risks are (the risk is the potential loss of whatever the option costs you).

NOTES & QUOTES: In all the years I've been writing these Letters, I've never received as much personal mail as now. What's happening? Darned if I know, but the letters keep pouring in. It's impossible to answer it all, but I do read each letter carefully, and I thank you kind people for writing. A lot of subscribers are obviously worried about my health. Here's an update. I asked subscribers for their experience on EDTA chelation. I received an amazing 100 positive letters on chelation (plus a dozen books on the subject), almost all from people who have actually undergone treatment. I also received about 20 letters from physicians, most of whom (but not all) were negative on the treatment. At any rate, I have started chelation and will get two treatments a week. The process involves slow (two hours) IV injection of an amino acid

called EDTA. This chemical is supposed to clear the veins and arteries of plaque. In due time I'll take a treadmill test and see what the actual results are. The literature and anecdotal evidence on chelation is extensive. Tens of thousands of people have undergone it. Few, very few, doctors will recommend it. But then 25 years ago doctors warned against breast feeding and "rooming in." Doctors tend to be extremely conservative, particularly where alternative medicine is concerned. Who knows -- the AMA may even approve of vitamin therapy some day (actually, they're beginning to come around now). At any rate, I'll keep you all informed. And if you have heart trouble, you might at least read one of the many available books on EDTA chelation (end of lecture).

* *

The US now imports over 50% of its oil, and by the end of the decade the prediction is that we'll be depending on foreigners for 70%. Recently, the price of oil has collapsed. This helps the oil-dependent sector of US industry, but it's a killer for US oil producers. In the end, unfortunately, the oil smash will make us more dependent then ever on foreign oil.

* *

Political Notes: S. Africa -- with apartheid now history, S. Africa is being flooded with high-ranking foreign visitors and electronic stimuli. Hollywood stars, rock stars, stars of all varieties are inundating S. Africa. Meanwhile, S. African TV fans can watch CNN, the BBC World Service plus both CBS and ABC nightly news. The leading S. African problem -- super-high crime.

* *

The lines between Taiwan, Hong Kong and China have become blurred. It's all "Greater China." Earlier this year the World Bank stated that this complex was "arguably becoming the fourth growth pole of the world economy." Shocking to Western economists, the World Bank predicted that Greater China output would rival the US domestic output by the turn of the century. The bank said that official accounting "greatly understates" the size of the Chinese economy.

Economists Warn That Push for Growth In China May Revive Soaring Inflation

By Kathy Chen
And Julia Leung
Staff Reporters of The Wall Street Journal

Chinese companies and local officials are heeding Beijing's recent calls for swift economic development, prompting economists to warn of a resurgence in inflation.

China hasn't formally announced an end to Vice Premier Zhu Rongji's austerity

slams on the brakes, everyone will be unhappy."

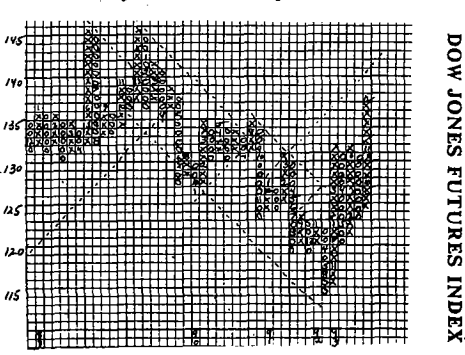
Local leaders are also optimistic. Hunan province hopes to maintain its current growth rate of more than 10% next year. The inland province, one of the largest sources of unapproved bank loans flowing into southern China for property speculation earlier this year, wants to enliven its economy by "making real estate the dragon's head"—or the engine—of

* *

The US Consumer Price Index for November was up 0.2% despite the collapse in oil. Speaking of oil, just got a note from my old friend, Charles Maxwell of C. J. Lawrence. Charlie is widely held to be one of the top oil analysts in the nation. Writes Charlie, *"On balance, we see a long, slow recovery of crude prices ahead, but not a sharp descent . . . By the end of '94 West Texas Intermediate prices could easily be $19-$20 a barrel."*

* *

On another front, this chart of the Dow Jones Futures Index shows a decisive breakout to the upside. Beside the precious metals, the base metals (lead, zinc, copper) plus aluminum are heading up. Barring a stock market collapse, I look for rising inflation during 1994 (P&F chart courtesy of *Chartcraft,* New Rochelle, NY 10801).



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China has more or less promised to keep Hong Kong capitalist for the next 50 years. But Hong Kong's London-appointed Governor Patten wants to make it more democratic by broadening Hong Kong's voting powers. China sees this as an eleventh hour attempt to sneak in British constitutional structures. As a result, the Chinese keep warning and threatening. We'll see, but I think economics will win out (and Hong Kong is booming). Furthermore, the Chinese want those hard currencies (assuming that any currency is "hard" today).

* *

Richard Nixon is (to my mind) still the smartest statesman around. In an interview with William Safire of the *NY Times* Nixon said, *"When the rest of the world is turning away from big government, we shouldn't be turning towards it. The problem with 'reinventing' government is that they want government to do better the things that government shouldn't be doing at all . . . The public's interest in NAFTA was not in the issue but in the battle . . . India, which will be more populous than China in the next century, must ask itself this question: can democratic socialism compete with Communist capitalism? To pose the question is to answer it -- only capitalism, however modified, can compete with capitalism -- but I never heard it posed before . . . There isn't any Third World anymore, only two worlds, rich and poor . . . Economic freedom will open up any closed society."*

* *

Just received a nice letter from a subscriber who says that he has been happy with my advice over the years and "this includes not only your investment advice such as gold (from which we have profited handsomely) but your suggestion that if you were to move from La Jolla it would probably be to Austin, Texas . . . We, like so many other Californians, have come to Texas to make another stand. In other words, we have voted with our feet as so many other people all over the world have done when their voice was no longer heard . . . The difference between Phil Gramm and Kay Hutchison and Dianne Feinstein and Barbara Boxer are like the difference between Ronald Reagan and Bill Clinton. And look at the Texas economy vs. California's economy! Sincerely, T.P.H."

Russell comment: No weather in the world compares with San Diego's, yet I wouldn't blame anyone for moving. And the California taxes, well, don't get me started. Ah well, I want to say something nice about San Diego. I don't play golf, but SD is now the "Golf Capital of America." You can play the game 350 sunny days a year here -- on the 65 golf courses that dot the county (with seven more now under construction). And if, like my son Ryan, you like to surf, well, you're in heaven.

* *

Consider places like Hong Kong where there is no capital gains tax and a much lower income tax. The accumulation of capital and savings through the years in the low-tax nations will be terrific. This build-up in wealth will be translated into vicious competition. In due time, the low-tax, high savings, high-production nations will win the economic war. The US is moving in totally the wrong direction. We're moving along the road of outrageous borrowing, massive debts, high taxes, low savings, high consumption, and ever-increasing government regulation. What will terminate these trends? Crisis, collapse, and the extremely painful recognition that these trends have impoverished the nation.

I continue to believe that our wrong-headedness will show up either in a primary bear market in stocks or a run on the dollar. The dollar? Yes, our mistakes will, in time, impact on the dollar as foreigners perceive the US as a nation that has mortgaged its future and destroyed its savings all in an effort to lead the good life now. The strength of a currency acts as a barometer of the strength (or weakness) of a nation. Which is why I watch the dollar so carefully.

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Increasingly, the US is becoming a nation of rich and poor with the middle class being ground under. And maybe the biggest problem is that of the black underclass. The actual statistics are shocking. Blacks make up only 12% of the population. Yet they account for 55.1% of all murder and non-negligent manslaughter, 60.9% of all robbery, 49% of prison admissions, while one out of every four blacks, age 20-29, is either in jail, or on parole or probation. And

70% of all black babies are born to unmarried mothers. The problem of the blacks is so huge, so daunting, that I would not even know where to begin to solve it. Actually, I'm convinced that only black leaders themselves can solve the problem. It's up to them.

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The US Bureau of Printing and Engraving is using new, cheaper, high-speed printers to "publish" our currency. This has created a few problems. For instance, on the new one dollar bills George Washington's wig has receded and his facial expression has changed somewhat. The Secret Service has been fielding about 25 calls a day from people who think the new bills are counterfeit. They're not. Actually, $50,000 in higher denomination counterfeit bills hit New York City alone each week. Says the supervisor of the Secret Service, nobody is going to counterfeit one dollar bills, "It's not worth the aggravation."

* *

James Grant [*Grant's Interest Rate Observer* (212) 809-7994] believes that too many people are thinking the same way regarding inflation. Jim's theory is that *"deflationary tendencies are yesterday's news and that the money of the future will be made with contrary ideas. Inflation probably will be one of them, but it will not be the first to work. The number one tendency of the future, we think, will be a change of attitudes towards inventories; for years, less has been more."*

Russell comment: This is along the lines that I have been talking about. I noted in recent Letters that there will be a huge shortfall in grains this year (particularly corn), and this applies to many other items where the "just in time" philosophy has been holding sway. Manufacturers have grown used to no-inflation, and the word is "don't stock anything -- just call it in when you need it and not a minute before you need it." That's a great concept until the shortages start to build and inflation starts to heat up. Personally, I believe the low point for inflation has passed.

* *

Changes: The old style malls are now "old hat" and old-fashioned. Says Kurd Barnard, president of Barnard's Retail Consulting Group, "The customer for whom they built malls 20 years ago is not the customer that comes in today, and every retailer will have to face that fact. Malls have lost some of their luster, and virtually all of their entertainment value." What will take their place? In today's world of squeezed budgets and two-bread-winners-per-family, what is taking their place is the new "Power Mall." This is a group of three or four or more major discounters packed together and scooping up the new bargain-minded consumers' dollar. The operative phrases today are "no frills, discounts, values." In Scottsdale they've opened a 1.2 million square foot power mall and on Long Island a new $180 million power mall called The Source will soon open.

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Banking: Says Livia Asher, Merrill Lynch analyst, "Lending is a no-growth business. If you look at demographics, what's growing is managing money for the aging population." Evidently Mellon Banks believes it. For a fat $1.85 billion, Mellon has bought Dreyfus Corp. Dreyfus has 130 different mutual funds which in turn manage more than $20 billion. The buy-out will make Mellon the bank with the biggest mutual fund family in the business. Says Frank Cahouet, Mellon's chairman, "The pure banking business is mature and undergoing consolidation, yet the rest of the financial services industry is growing rapidly."

Russell comment: US mutual fund assets will soon pass total US bank reserves. As a result, every major bank is starting its own mutual funds or would like to. It's a way of keeping the money home. Other banks (NationsBank, Morgan) are major factors in the derivative business. Who knows, the next trend in banking may even be lending (actually, of course, bank lending is now picking up, and this is beginning to show in the money supply numbers, which have been expanding since last April).

* *

Speaking of banks or at least investment bankers -- if you want to get rich my suggestion is -- be a partner in Goldman Sachs. Goldman has 8,000 employees and only 161 partners. Goldman is a private partnership so it doesn't release its earnings, but a Canadian bond rating service offers estimates. Their estimate -- partnership profits for the first nine months of '93 at (would you believe) $2.3 billion. Assuming things go along swimmingly for the rest of '93 and assuming a 40% tax, the boys and girls at Goldman will share $1.8 billion. The talk on Wall Street is that all the employees will receive generous bonuses, and that partners (even the lowest partner on the Goldman totem pole), will receive $5 million or more. How much will the top partners make? You don't want to know. However, most of the money remains in the Goldman pot until a partner quits or retires.

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Odds'n'Ends: Do you know what the two most recognized logos in the world are? Number one is the Coca-Cola logo, number two is none other than the Playboy Bunny . . . It may be sub-zero during the Alaska winters but that doesn't stop the fun. Alaska has the highest birth rate in the nation.

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Dollars, dollars: Twelve countries call their currencies "dollars." But each of these dollars is worth a different amount, whether you're talking about Hong Kong dollars, Bahaman dollars, Singapore dollars, New Zealand dollars, Australian dollars, Canadian dollars, etc.

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What's the coming boom in Asia? According to the *Washington Post,* it will be an "explosion of HIV." In the next couple of years, cases of HIV in Asia will surpass that of severely-infected Africa. The World Health Organization estimates that 14 million people worldwide are now infected with HIV. By the year 2,000 WHO projects 30 to 40 million cases, but other experts project as high as 120 million people. States the top anti-AIDS activist in Thailand, "Most of Asia unfortunately is still either asleep or in the early stages of denial or worse than that, blatantly lying about HIV infections. Thailand now has one of the world's highest infection rates. The AIDS rate in Thailand is three times the US rate and is exploding throughout the heterosexual population. Thailand not only has two types of the virus, HIV-1 and HIV-2 but two sub-strains of the more common first type. Type B is "one of the most infectious" strains in the world. More than 600,000 Thais are now infected, or 1% of the entire population. Reason: sex-tourism, rampant prostitution and corruption, organized crime and foreign pedophiles. It is feared that Thailand is an advanced picture of what may be in store for the rest of Asia.

* *

I said in the last Letter that as far as guns are concerned, "It's too late." The guns are out there -- 200 million of them. NY has the Sullivan Law, the toughest law in the nation. You cannot own a handgun in NY. Dec. 7 -- a lone, crazed gunman strolls through the Long Island commuter train casually shooting 18 unarmed people, killing 6, and would you believe it, the guy actually took time to reload. One qualified person with a concealed weapon could have put a stop to this guy. But the train was utterly helpless.

To me, guns are like the federal debt -- out there by the millions and out of control. What do you do about the damn fools who are running our government and who, year after year, have allowed the US to drown in debt? It's too late, they've already done it and they're still doing it. So you buy gold and gold stocks in an effort to protect yourself. I feel the same way about guns. You want to be unprotected in your home? Be my guest. Personally, I don't want to depend on luck and hope.

* *

Narco: Surgeon General Elders (thank God a black woman said this) mentions that maybe we should legalize drugs. Clinton says don't even think about it. Other pols screamed, "Get rid of her." Listen, drugs (beside debts) are busting this country. We've been fighting the drug war for years. We're losing the war -- any street cop will tell you that. The cost of the drug war runs into the tens of billions of dollars. Building new prisons is a massive expense for the states. Get this -- 60% of the prison population is there on drug-related crimes. The prison population of the US is now 1.1 million, and growing. Some judges are quitting because they can't take the drug cases, the mandatory sentences, the insanity of it all.

What about legalizing drugs, taking the profit out of drugs, and spending some of those billions on educating people, elevating people, getting them off drugs in a sane way? Well, it won't happen until maybe the nation is broke. So lock 'em up, shoot 'em

up, keep the winless war going. We've got a national anti-drug industry going. Pretty soon it will be as big as the tax industry.

* *

Speaking of taxes, my accountant just gave me the news. With federal and California taxes, I'm paying 43% on most of my income. And you know, I wouldn't mind if I was getting something for it. But for the most part what I'm getting for my taxes is big government. A subscriber asked me when I think the debt-and-tax mess will finally hit the fan. I told him that it will happen when the US has to **borrow to pay the interest** on the national debt. That delightful event should occur before the end of the decade.

* *

Routine: The *NY Times* is delivered to my house at 1:30AM every morning. Being a total news nut, I immediately rise and read the *Times* from cover to cover. Then I go to my computer and do my calculations on the McClellan Index for stocks and bonds. By that time it's 3:30AM, so I go back to bed and sleep until 5:30. The *Times* is America's greatest paper, so I gladly pay 75 cents for the national edition. Next year the *Times* will be the first paper to go to one dollar a copy (national edition, it's 50 cents in NYC). I'll pay the new fat price, but who was saying that there's no inflation? Between the *NY Times* and Clinton's "punish the rich" taxes, life doesn't get any easier in these United States.

* *

The hottest item floating around today is the 295-page transcript of illegally taped phone conversations that involve young Hollywood madam Heidi Fleiss. The word is that both *Penthouse* and *Playboy* have received the tapes, and the tapes are supposed to involve famous film stars, top executives, illegal gambling, Mafia hit men and other not-so delicate subjects. Will the transcripts be published? We'll see, but don't bet against it.

Following in Heidi's footsteps, a madam starts a new business in an upscale hotel. She calls the business "Super-Sex." One of her young ladies trots upstairs and knocks on a hotel room door. A 90-year-old gentleman opens the door. The young lady sings out, "Sir, it's Super-Sex." The old gentleman sighs and says, "Forget the sex, miss, I'll just take the soup."

* *

I've been paying for Social Security all my life, and next year when I finally start to collect Social Security (85% of it will be taxed, by the way) I can honestly say that it has been one of the biggest rip-offs I've ever been subjected to. My suggestion: at some point close SS down, and start over with a mandatory system wherein workers would be forced to save, but they'd save via a private savings plan. The following is from an article by Peter Ferrara (a fellow at the Heritage Foundation). Read it and weep.

The long term financial crisis of Social Security is not the only problem justifying the abolition of the system. The program's payroll taxes are now so high that even if all the promised benefits are somehow paid, these benefits would still represent low, below-market returns, on the thousands of dollars today's young workers must pay into the system each year for their entire careers. For most young workers the benefits would represent a real rate of return of around 1 percent or less, and to many the return would be close to zero, or even below zero. These workers could now receive much higher returns and benefits investing through the private sector. Average-income workers could accumulate over half a million dollars in today's terms by retirement, and more than a million for two-earner average-income families, for the same sums now paid into Social Security. This makes the inevitable inability of Social Security to pay even the currently promised inadequate benefits all the more troubling.

GOLD: Mathematics: As far as gold is concerned, 95% of what you read about in the papers and from the analysts is about the supply/demand situation for gold. Of course, that situation is long-term bullish, but if the supply/demand situation is what you're fixed on, you're looking in the wrong direction.

Do you remember the old "rule of 72" formula which states that if you divide any number into 72, the resultant figure will show you how long it takes for an item to double? Example: if you're invested at a 6% rate of interest your money will double in 12 years (72 divided by 6).

Now consider this: the US economy is growing at a rate of maybe 3%. But the debt is growing at a compounded annual rate of around 13%. That means that at current rates the GDP of the US will double in around 24 years. But US debt will double in roughly 5.5 years. It doesn't take a genius to figure out the outcome. Either the US will go broke (meaning the dollar will collapse) or we'll keep going via inflation, big inflation, maybe hyper-inflation.

That, in a succinct nutshell, is the BIG STORY about gold and the dollar. Remember, the dollar is the world's reserve currency. Every central bank in the world holds a goodly portion of its reserves in dollars. What happens when the US's GDP/debt equation kicks into high gear in a few years from now? What will happen is that there will be a panic to get out of dollars. But where will the central banks and the world's dollar-holders and dollar-creditors and debtors go?

Gold bug: If billionaire Laurence Tisch knows what he's doing, a new outbreak of gold fever is in the wings. A gold stock buyer early this year and later a seller at a fat profit, the chief of Loews and CBS is chasing the bullion once again.

His penchant for gold — which ran from a low of $326 an ounce to a high of $407 and was $377 Friday — is disclosed in Loews' third-quarter SEC stock filings.

Latest purchases show Tisch boosted his gold stakes in Homestake Mining, AMAX Gold, Echo Bay Mines, Battle Mountain Gold and Pegasus Gold. He also took a new small gold stake in Glamis Gold.

Tisch won't return my calls. But one of his buddies tells me he hiked his gold stake because he's concerned about a potential surge in inflation.

Some will go to yen, some will go to D-marks, some will go to Swiss francs (the Swissie is heavily backed by gold), but a lot, A LOT, will rush to the safety of the only money that isn't a central bank paper creation -- GOLD.

However, the big investors of the world aren't stupid. Many of them see the picture now. What about those that don't see it? As gold creeps higher, they'll study the situation, they'll start to believe the situation -- and they'll jump the gun. The big boys are not going to wait for an actual dollar crisis, they'll get on the early train, moving towards the safety of gold. And you know what -- slowly, subtly, carefully, I believe that's already happening.

In the meantime, our guys and gals in Washington, under the leadership of President Clinton, haven't got any serious thoughts about actually cutting the deficit. Oh, you think they're serious, you think Clinton wasn't "fibbing" about cutting back? Then read this piece from the Paul Craig Roberts' Dec. 20 column from *Business Week* (and if this doesn't make your blood boil, put yourself down as a true tax-and-spend Democrat).

A few days before Thanksgiving, President Clinton succeeded (by a three-vote margin) in killing the bipartisan deficit-reduction spending cuts he promised last summer in the heat of his battle to raise taxes. The effort to cut a paltry $90 billion out of projected federal spending of more than $8 trillion over the next five years, led by Representatives Timothy J. Penny (D-Minn.) and John R. Kasich (R-Ohio), was defeated by fierce White House lobbying.

Representative Penny, who had delivered more than a dozen pivotal Democratic votes for Clinton's tax increase (which passed by two votes), was so exasperated by the White House's duplicity that he told the press: "It's almost enough to make me vomit."

Only four months ago, the Clinton Administration and the Democratic congressional leadership assured the country that nothing was more important than deficit reduction. There would be a "shared sacrifice," beginning with higher taxes on the rich and moving on to spending cuts. Once the tax increase was in the bag and spending was on the block, however, President Clinton decided that deficit reduction was no longer a good thing. In that

short span of time, deficit reduction metamorphosed from essential to the economy's health to a threat to its recovery.

With a riot of red ink and an annual budget deficit more than $100 billion higher than where Reagan left it, the Clintonistas have decided that we need to spend more. The new policy, in their words, is "carve and spend." Laura D'Andrea Tyson, Clinton's chairwoman of the Council of Economic Advisers, has redefined "budget savings" to mean intrabudget transfers to fund new programs. No real "carving" occurs.

DOUBLE STANDARD. Under this approach, the prospect for deficit reduction is nil. The Congressional Budget Office's latest report on the budget outlook says: "The underlying trend of growing deficits has not been reversed." Yet no alarms are being sounded.

But let's be honest, Clinton may be lying but he isn't stupid. He knows the US economy is on the edge. He knows that with deficits of a billion dollars a day and historically low interest rates the economy is still having trouble moving higher. So what happens if they really cut the deficits. Clinton must be thinking, "It's too late to cut. Besides, I have so many plans for America, so many wonderful plans."

PURCHASING POWER: As I said, most of the gold comments that you read today concentrate on supply and demand. But much more significant to gold is the loss of purchasing power in currencies.

There are two kinds of inflation. The first is the familiar kind -- inflation in the price of goods. This is the kind that all government statistics and announcements deal with. It's the obvious kind, the kind that the public understands.

But there is a second and much more insidious type of inflation -- it's inflation of the currency and the subsequent long-term loss of purchasing power in the dollar. This is the inflation brought on by rising government debt and the systematic translation of that debt into an ever-increasing mountain of debased paper money.

At the beginning of this column I discussed how the mathematics of the GDP/debt equation would propel gold higher and higher. But there's another factor behind the gathering bull market in gold. It's the collapse in purchasing power of currencies.

Much of the Western world is still in recession. Corporations are still laying people off by the tens of thousands as they seek to become "lean and mean."

Nynex Weighs Plans to Cut 22,000 Jobs Over 3 Years as It Braces for New Rivals

By Leslie Cauley
Staff Reporter of The Wall Street Journal

NEW YORK – Nynex Corp. is weighing plans to cut 22,000 jobs, or about one-third of its work force, over the next three years

Rockwell to Cut 500 Jobs in Southland

Nabisco to cut 6,000 jobs globally

By Richard Tomkins in New York

RJR Nabisco, the US tobacco and

Xerox to cut its workforce by 10,000

By Martin Dickson in New York

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Industry Is Expected to Lose Another 49,000 Jobs Next Year

By James F. Peltz
Times Staff Writer

The hard-hit U.S. military and civilian aircraft industry will suffer another 9% sales loss next year, incurring an additional cut of 49,000

"For the industry as a whole, we see an overall sales curve that will dip sharply for the next two to three years, then flatten out," AIA President Don Fuqua said in a statement.

The AIA—whose members also

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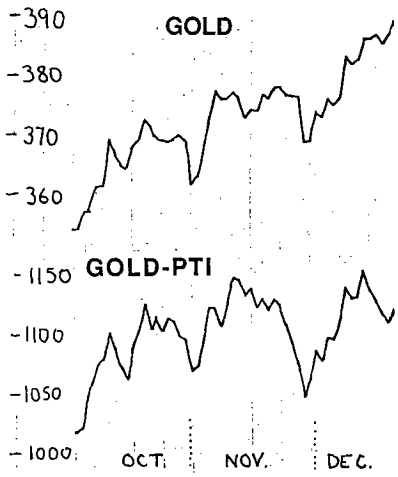
These mass layoffs are not without their consequences. As the citizens of nations around the world pressure their governments for jobs, more entitlements, more services, more prosperity, more of everything -- the debts and deficits continue to build. As the debts rise higher, there is an irresistible temptation by governments to handle the debt via inflation. This process is another fundamental force behind the bull market in gold. It's the force that tells every politician and political leader, "Spend, spend, spend, give 'em what they want or say 'Bye-bye' to your job."

PRICE ACTION: If you remember many months ago I stated that the gold bull market started at the extreme low of **284** back in 1985. That low marked the beginning of the first phase of the gold bull market. The first phase of the bull market is the phase where informed investors, value-oriented investors, begin to accumulate gold. During the first phase both the metal and the gold stocks were ridiculously cheap.

The second phase of the gold bull market started this year at the 326 low of February. The second phase of any bull market is usually the longest and must difficult and erratic phase. It is the phase where knowledgeable investors continue to buy heavily. But it is also the phase where the public slowly, very slowly, starts to take an interest in the situation. And that's what we're beginning to see now. Large interests (as per Mr. Tisch) are taking their positions or enlarging their positions. And the public is beginning to think about and read about gold. They are watching the rise in gold and gold shares, and some of the "early-bird public" are even beginning to nibble on the stocks and coins. This buying-interest will increase considerably as the second phase of the bull market moves on.

Yes, at some point in this second phase the public will start moving more heavily into gold. When? Where? My guess is that the public, which is still being bombarded with anti-gold nonsense, will become more interested when gold finally rises to new highs or probably above 415. When will that be? My guess -- sometime next year, most likely during the first half.

Until then I simply see this as accumulation time. Gold is on the bargain counter in this area below 400. Adjusted for inflation, I believe gold is as cheap now as it was 17 years ago in 1976 (although the nation is now in much worse financial shape than it was back in 1976). So I'd say that gold is roughly equal to 125 dollars in 1976 money.



Gold is still dirt-cheap here, but the public is not a buyer of values and thus the public is still not interested in gold -- hardly, the public would much rather buy mutual funds yielding 2.5% or bonds that have already topped out.

The chart at left shows gold moving up above the 390 level. The Gold-PTI hit a high of 1153 on December 13, backed off a bit, and then started up again.

LATE NOTES: Yearend has arrived, and I want to take this opportunity to thank all my faithful subscribers for bearing with me. Many of you have been with me for 20 and 30 years, which is a long time to hang out with anyone . . . Alan Greenspan has been in a three-month running battle with House Banking Committee Chief Henry Gonzales, and more recently the relationship between Clinton and the Fed has cooled. The rumor (sensational if true) is that Greenspan may quit -- and wouldn't gold like that . . . The stock market's major technical probem at this time is the continuing divergence between breadth and price. The "divergence problem" will almost surely be resolved during the first quarter of '94 . . . Hang tough with your golds. Once again, SEASON'S GREETING and my BEST to all of you. P.S. -- check the Letters to the Editor, *Barron's* Dec. 20.